

VZCZCXYZ0000
RR RUEHWEB

DE RUEHLP #1053/01 2011849
ZNY CCCCC ZZH
R 201849Z JUL 09
FM AMEMBASSY LA PAZ
TO RUEHC/SECSTATE WASHDC 1303
INFO RUEHAC/AMEMBASSY ASUNCION 9110
RUEHSW/AMEMBASSY BERN 0212
RUEHBO/AMEMBASSY BOGOTA 6502
RUEHBR/AMEMBASSY BRASILIA 0464
RUEHBU/AMEMBASSY BUENOS AIRES 7677
RUEHBY/AMEMBASSY CANBERRA 0142
RUEHCV/AMEMBASSY CARACAS 4723
RUEHCP/AMEMBASSY COPENHAGEN 0548
RUEHPE/AMEMBASSY LIMA 5054
RUEHMD/AMEMBASSY MADRID 4399
RUEHMN/AMEMBASSY MONTEVIDEO 6357
RUEHNE/AMEMBASSY NEW DELHI 0222
RUEHNY/AMEMBASSY OSLO 0197
RUEHOT/AMEMBASSY OTTAWA 0584
RUEHQT/AMEMBASSY QUITO 7340
RUEHSG/AMEMBASSY SANTIAGO 2103
RUEHKO/AMEMBASSY TOKYO 0409
RUEHWL/AMEMBASSY WELLINGTON 0001
RUEAIIA/CIA WASHINGTON DC
RUMIAAA/USCINCSO MIAMI FL
RUEHUB/USINT HAVANA 1827
RHEHNSC/NSC WASHINGTON DC
RHMFISS/HQ USSOUTHCOM MIAMI FL

C O N F I D E N T I A L LA PAZ 001053

SIPDIS

E.O. 12958: DECL: 07/19/2019
TAGS: [EMIN](#) [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [PREL](#) [BL](#)
SUBJECT: BOLIVIAN MINING, INDUSTRY OF INDECISION AND
INSECURITY

REF: A. LA PAZ 183
[1](#)B. LA PAZ 2719
[1](#)C. LA PAZ 267

Classified By: Acting EcoPol Chief Holly Monster for reasons 1.4 b,d

- - - -
Summary
- - - -

[1](#)1. (C) The Mining industry in Bolivia is in a state of uncertainty. Propelled by large investments to start operations at the San Bartolom and San Cristobal mines, the sector was responsible for 25% of Bolivia's GDP in 2008. Despite concerns about the local government, unions, community, and national government as well as a new, as yet unwritten, mining law due in 2010, U.S. Company Coeur d'Alene * majority owner of the San Bartolom mine * is confident that its operations in Bolivia will show profitability. The optimism of Coeur d'Alene stands in stark contrast to the pessimism felt throughout much of the Bolivian mining industry. Two unproductive sources of revenue, the Mutn Steel mine and the Lithium reserves in the Salar de Uyuni, and a decrease of 87.2% in foreign investment in 2009, is causing concern for the sector's direction. The GOB is determined to reinvigorate the mining sector while avoiding the mistakes of the past, but it seems new mistakes will be made before La Paz gets it right.

- - - - -
Bolivian Mining Industry
- - - - -

[1](#)2. (C) Donald Gray, Senior Vice-President of South American Operations for Idaho based Coeur d'Alene and Humberto Rada, President of Coeur South America, its Bolivian subsidiary Minera Manquiri, and the Bolivian Mining Association, are confident that even in the unpredictable and sometimes hostile business environment of Bolivia, they can

turn a profit. That confidence comes with the caveat that their existing contract must be respected. "If they don't change the rules of the game, we'll hold our own." Operations began at the San Bartolom mine late in 2008 and already there are threats from the Bolivian government to rework the contract.

¶3. (C) Gray contends that the GOB is facing pressure from the local civic committee to amend the contract. The Committee asked the government for a new highway, a new airport, a new cement plant, and increased restrictions on Coeur's operations. Since the GOB is not in a position to deliver on the first three requests, it can save face with the local community by fulfilling the fourth. Coeur is presently allowed to mine up to an altitude of 4,700 meters on the Cerro Rico Mountain where San Bartolom is located. The GOB is threatening to restrict mining above 4,400 meters, which would significantly diminish profitability. The company has already invested \$240 million in the project and expects that at the current tax rate and price of silver it will take most of the mine's projected 14-year life span to recoup that investment.

¶4. (C) In addition, there is a new mining law just over the horizon, and Coeur is working with the Mining Association to ensure that it is favorable to the industry. The new Constitution stipulates that a mining law must be ratified no later than one-year after the election of the new Congressional Assembly, which will take place in December. Coeur and the Mining Association have maintained a

low-profile with respect to the pending law, but have already begun to strategize with Cooperative miners * a powerful lobbying group of independent mine workers * about the legislation. One potential regulation that has been mentioned, which Coeur and its allies would like to keep out of the legislation, stipulates that companies would be unable to declare their reserves, only their production. This would severely limit mining companies' ability to attract financing, and could open the door for government expropriation of those reserves.

¶5. (C) The Morales administration increased the income tax on mining from 25% to 32.5% (if industrialization is done in Bolivia) or 37.5% (if the raw material is shipped elsewhere). Coeur d'Alene is currently paying at the 32.5% rate in addition to paying royalties of 2.5% to the Cooperatives and 1.5% to COMIBOL, the government mining company. Coeur also has a second contract with COMIBOL requiring a payment of \$16 million in 2009, more than COMIBOL's entire 2008 budget.

- - - - -
Mine Security
- - - - -

¶6. (C) Gray acknowledges that there is also potential for trouble from the community, the union and from the Cooperative miners. The union can be uncontrollable * having organized a strike in March, which was settled quickly, and labor negotiations in April * but is not a threat. He went on to stress that there have been no incidents of crime among the 300 employees and there is a contract with Cooperatives to do the company's trucking, implying that it is in both groups' best interest to keep the mine active.

¶7. (C) Rada also expressed no concern with the recent community actions taken against an Australian Gold mine and a Canadian Silver mine, since the inner-politics of each situation are unknown. San Bartolom's high level of investment and use of advanced technology is a deterrent to any action against the mine. Underground mines by contrast are easier to takeover and exploit.

- - -
Mutn
- - -

¶8. (C) In early July, over 3 years after awarding the potentially lucrative Mutn Steel mining contract to Indian Company Jindal (Ref A), the GOB issued an ultimatum:

industrialize iron ore in Bolivia by the end of 2014 or face nationalization. Marco Antonio Lema (strictly protect), an advisor to MAS Congressmen and staffer on the Bolivian Hydrocarbons Committee told Embassy Officers that the GOB does not believe that Jindal will meet the deadline, but he is also skeptical that Mutn would get nationalized. After an attempt to take over the Huanuni mine in 2006 resulted in 16 deaths (Ref B), Minister of Mines Eschazu believes that mine nationalizations are counterproductive. Lema assesses that the most likely scenario would be an extension of the deadline, with another - less likely - alternative being the nullification of Jindal's contract to bring in another company. Both the GOB and Jindal seem to be frustrated with the current situation. Jindal with the GOB's inability to put the necessary infrastructure in place or meet its contractual commitments, and the GOB with Jindal's slow pace, only moving "a couple of Caterpillars" into the area, according to Lema.

¶9. (C) Jindal is also reportedly not active within the Bolivian Mining Association and has shown no interest in

helping to craft the pending mining law, leading Rada, as President of the Mining Association, to speculate that Jindal does not have (or no longer has) long term plans to industrialize in Bolivia as the government originally hoped.

- - - -
Lithium

¶10. (C) It is the experience with Jindal that is leading the GOB to rethink how it wants to exploit the lithium fields in Southern Bolivia. According to Lema, the current plan being put forward would involve dividing up the area for small domestic companies to mine the lithium. Instead of contracting to one or two large companies and being held at their mercy (as with Jindal), and not wanting to nationalize the project (as with Huanuni), the government perceives that it will have more control and a steady supply of lithium using small companies. These companies would sell to the Bolivian government, which would in turn sell the lithium to an international partner. Bolivia is looking primarily to Asia for a partner, but is open to partnering with anyone that it feels gives it a good deal, including U.S. companies (provided that Morales gets to sit down face-to-face with President Obama and reset the bilateral relationship).

¶11. (C) The GOB received three proposals from international investors hoping to mine the lithium (Ref C), but demanded too much in return, according to Rada. The GOB wanted to partner with a company that would mine the lithium and produce lithium-powered batteries in Bolivia. In addition, they also asked for half of the profits from the battery sales. Rada commented that Bolivia's inability to secure investment for lithium is good for Chile, since the Chileans also have extensive lithium reserves and their favorable investment climate stands in stark contrast to Bolivia's uncertain environment. The GOB is concerned about losing investment to Chile, but will not admit so publicly, according to Lema. Lema also speculated that under any other government lithium production would be half a year away, however with the current administration; it will be more than a year before production is realized.

¶12. (C) The Salar de Uyuni is not only rich in lithium, Rada told Embassy Officers, but also in Potash, which is valuable as a fertilizer, and Borax, a component in many things including cosmetics and detergent. The inability to move forward on lithium production also deprives the country of these other sources of revenue.

- - - -
Comment

¶13. (C) Coeur d'Alene's concern about the possibility of the Bolivian government changing the rules in the middle of the game is one of the primary reasons for the country's falling foreign investment. The challenging tax and royalty structure, hostile local civic committees, unpredictable

unions, and a potentially crippling new mining law all increase the risk of doing business in Bolivia. Investors that have accepted that risk are proceeding cautiously, as evidenced by Jindal, which adds to the GOB's economic frustration. That frustration is prompting the government to look at alternatives to both contracting and nationalizing.

CREAGAN